COURAGE

GROWTH ★ STRENGTH ★ STRATEGY ★ INTEGRITY

COURAGE ENERGY INC.

1999 Annual Report to Shareholders

Mission Statement

The corporate mission of Courage Energy Inc. is to create and continually increase value for its shareholders in the oil and natural gas business. While aggressively building on its financial strength with a focussed business plan to create a sustainable and profitable company, Courage will conduct business operations with integrity and respect for its employees, stakeholders, and assets in the most socially acceptable, environmentally responsible and regulatory compliant manner.

CORPORATE PROFILE

Courage Energy Inc. is a dynamic junior oil and natural gas company. Its principal business is the exploration, development and production of oil and natural gas.

Courage has demonstrated strong operational and financial performance since its inception in 1995. The Company is committed to enhancing shareholder value through exploration and development drilling. The Company's focus areas in Canada are in Alberta and British Columbia and internationally include onshore United Kingdom, France and Denmark. At December 31, 1999 the Company had 25,357,467 common shares outstanding that trade on The Toronto Stock Exchange under the symbol CEO.

ANNUAL MEETING OF SHAREHOLDERS

Courage Energy Inc. is pleased to invite its shareholders and other interested parties to attend its Annual and Special Meeting to be held in the Viking Room, Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta on Wednesday, May 31, 2000 commencing at 11:00 a.m. For those shareholders unable to attend the meeting, please complete and return your Form of Proxy.

1999 Corporate Highlights

FINANCIAL	1999	1998	Change
Revenue, oil and gas ($)	29,461,305	12,443,678	+ 137%
Cash flow from operations ($)	14,420,856	5,523,025	+ 161%
Cash flow per share ($)	0.57	0.24	+ 137%
Earnings ($)	5,035,096	1,010,875	+ 398%
Earnings per share ($)	0.20	0.04	+ 400%
Shareholders' equity ($)	31,375,868	26,820,932	+ 17%
Capital expenditures ($)	20,556,467	16,146,933	+ 27%
Debt plus working capital ($)	24,261,722	18,535,465	+ 31%
Average common shares	25,187,323	23,495,208	+ 7%

PRODUCTION			
Gas production (mcf/d)	18,440	9,800	+ 88%
Ngl production (bpd)	424	310	+ 37%
Oil production (bpd)	832	710	+ 17%
Total production 10:1 (boe/d)	3,100	2,000	+ 55%
Total production 6:1 (boe/d)	4,329	2,653	+ 63%

PRICING			
Average gas price ($Cdn/mcf)	2.95	2.22	+ 33%
Average ngl price ($Cdn/bbl)	21.40	15.55	+ 38%
Average oil price ($Cdn/bbl)	23.58	13.94	+ 69%

RESERVES			
Proven (boe @ 6:1)	12,192,900	11,444,733	+ 7%
Probable (boe @ 6:1)	2,992,413	3,292,773	- 9%
Total proven + probable (boe @ 6:1)	15,185,313	14,737,506	+ 3%
Total established (boe @ 6:1)	13,689,107	13,091,120	+ 5%

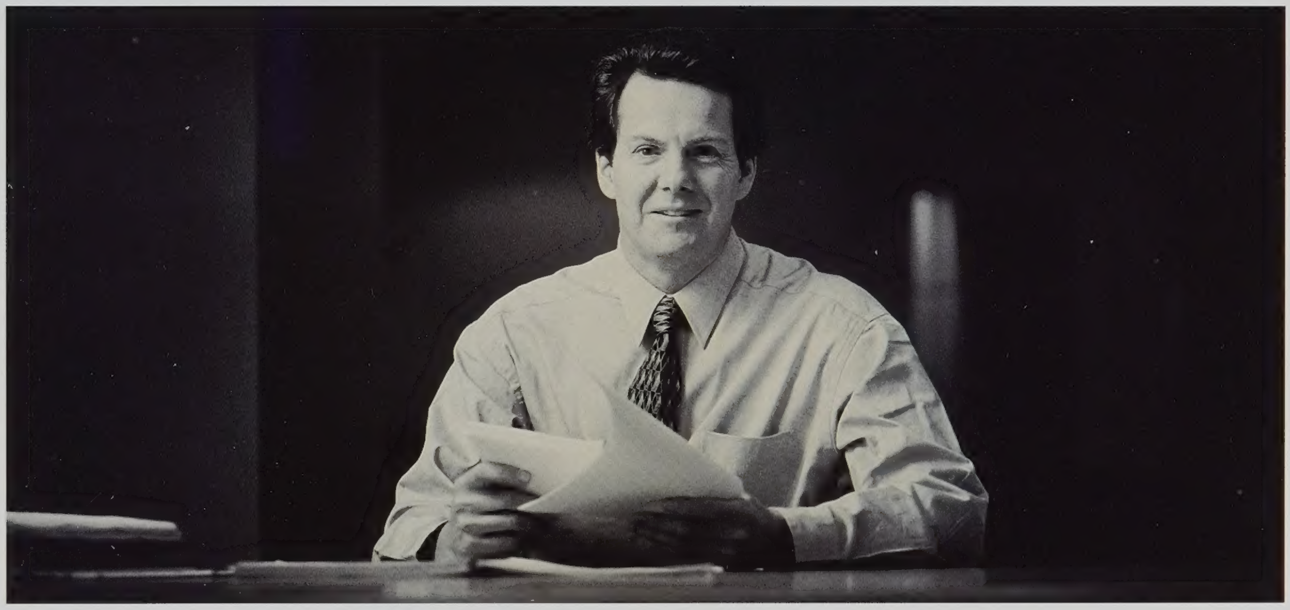
Letter to Shareholders

achieving long term **GROWTH** *increasing shareholder value*

building from **STRENGTH** *creating momentum*

executing a **STRATEGY** *to ensure success*

and reporting with **INTEGRITY** *in all areas of operation*



Courage Energy Inc. enjoyed an exceptional year in 1999 with continued exploration success and record financial performance. The Company reached the highest production volumes in its corporate history, averaging 18.4 mmcf/d plus 1,256 bpd oil and ngl's, up 63% from the prior year. At year-end, production again increased to 21 mmcf/d plus 1,350 bpd oil and ngl's. Courage achieved its best financial performance ever, with revenue, cash flow and earnings up 137%, 161% and 398%, respectively. These results are especially dramatic because the beginning of the year started with oil prices at their lowest levels in over 15 years. In response, Courage restricted capital expenditures during the first nine months to match internally generated cash flow. Capital was allocated to facilities and pipeline construction to tie in prior years' discoveries. Then with the realization of stronger commodity prices in the fall, Courage initiated its exploration program in the fourth quarter. Exploration drilling led to new pool discoveries at Claresholm and Willesden Green, Alberta, and at Red Creek and Wilder, British Columbia.

The transition during 1999 from low oil prices to the new reality of high oil prices was difficult to manage and forecast. Courage did exceptionally well and posted record results by all measures. The expectations for year 2000 are even better!

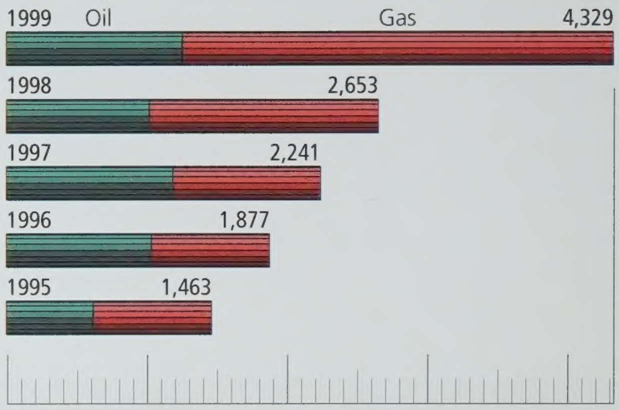
FIVE YEARS IN REVIEW

The 1999 annual report marks a significant milestone in Courage's emergence as a full cycle exploration company, having completed our fifth year of operations. A brief review of the past five years attests to the single minded focus and discipline that built Courage into the strong performer it is today and that will continue to direct the growth of the Company in the years to come.

Five years ago, Courage was emerging from its modest beginnings as a junior capital pool company. In 1996, Courage announced a new strategy for growth as a full cycle exploration company. The Peace River Arch in northern Alberta and northeastern British Columbia were identified as a geological focus. The Company proposed to acquire land, hire new exploration and operational staff, and build a prospect inventory. Courage executed that strategy and the Company has been in the top quartile of its peer group, based on performance, ever since.

The Company has grown production volumes exclusively with the drill bit. Production has increased at an average rate of 30% per year at a finding and development cost of under $5.00 per boe. The Company has delivered net income in every year of operation and is forecasting a 25% return on equity for the year ahead. The Company's debt level and balance sheet have always been maintained at manageable levels, especially in 1998, a year of very low oil prices. Management introduced strong cost control systems and corporate governance to ensure the integrity of our financial reporting. Growth in shareholder value is best demonstrated by the share price. In 1995, Courage shares were priced at $1.00 per share with a market capitalization of approximately $16.6 million. These shares have grown in value to today's price of $3.00 per share with a market capitalization of $75 million. This growth has been steady and assured, not volatile or speculative.

Daily Production
boe 6:1



In 1998, international exploration was also introduced with the drilling of an earning well in onshore United Kingdom. This program led to the discovery of three new oil pools and the establishment of a large land base with numerous exploration prospects. The international effort was expanded in 1999 to include an exploration concession in Denmark and a permit in the Paris Basin, onshore France. Until these international properties have a strong production base that can financially support a full technical team, Courage plans to rely on consultants. The international efforts of Courage are in their infancy and an expanded effort is planned. The objective is to gain the exponential growth provided by international exploration without risking the financial future of the Company.

One disappointment during the year was the failed corporate takeover of AltaQuest Energy Corporation. This company is the joint interest partner of Courage in the East Midlands Basin, United Kingdom. The strategy was to consolidate the onshore U.K. assets, build a larger production base, and gain operatorship. This strategy, in turn, would have resulted in operational cost savings and improved efficiency with a coordinated and financed exploration program. The failure to purchase AltaQuest was a disappointment but it was not critical to Courage's plan to expand its international effort.

INDUSTRY TRENDS

Entering the new millennium, the commodity price cycle is extremely positive. Oil prices are stabilizing above $25.00 US per bbl and natural gas prices are above $2.90 US per mcf. There still remains a debate as to where oil and natural gas prices will eventually settle but the trend is positive and it is based on market fundamentals that are considerably different from the low oil price environment of 1998. This cycle is also different because oil and natural gas prices are working in tandem for the first time in many years. This situation bodes well for Courage with its increased production volumes in 1999, and further volume increases are forecast for the year 2000.

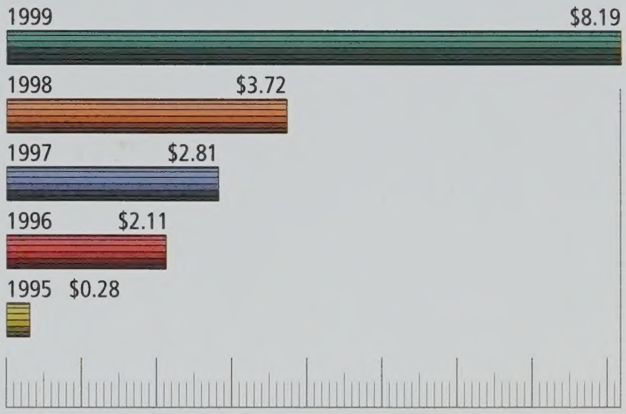
A new challenge for the Canadian oil patch is the limited access to equity capital. Oil prices have rebounded significantly and corporate profits will soar. It is therefore frustrating to witness that the equity markets have not returned to the oil sector. Until this happens, companies will have to restrict capital expenditures to their internal cash flow and available lines of credit. A consolidation of the industry is the likely outcome.

The growing North American economy is consuming more natural gas every year. This demand for natural gas has supported the building of new pipeline systems like Alliance pipeline, the development of the offshore Sable Island project and recent talks of Arctic gas. The pipeline infrastructure is interconnected across the continent and gas will continue to be the fuel of choice. Courage's production is weighted 75% to natural gas and the Company's exploration strategy will continue to focus on natural gas in western Canada.

CORPORATE OUTLOOK

During the past year, Courage hired additional technical and administrative staff. These moves were in response to the Company's rapid growth and in anticipation of accelerated exploration activities.

Retained Earnings
millions of dollars



The team is in place to take Courage to the next targeted production level of 10,000 boe/d.

Increased production volumes, combined with a very strong commodity price outlook are expected to provide another year of record financial performance in the year 2000. Courage has an ambitious capital program, budgeting $38 million in year 2000. This will be financed with cash flow and available lines of credit while maintaining a strong balance sheet.

Current fundamentals, both for the industry and the Company, support exceptional growth opportunities and these should translate into strong equity values for the shareholder.

TRIBUTE

Courage appreciates and welcomes the support of its shareholders and I trust that they will be well rewarded for their participation in our success. Courage thanks all of the employees and field staff, who have helped make 1999 a great year. The Company has looked to its Board of Directors for direction and guidance and I thank them for their dedication and contributions during the year.

R.G. Moffat,
President and Chief Executive Officer
March 15, 2000

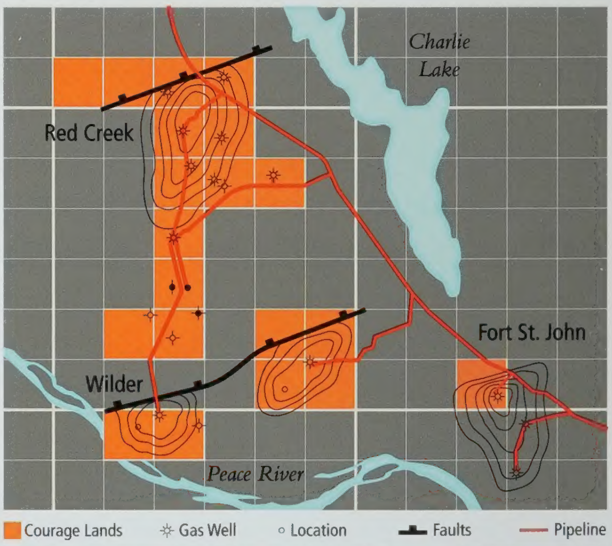
Exploration - Canada

The strategy of building a full cycle exploration team has been realized. The results of the Company's successful exploration activity over the past several years demonstrate the ability to maximize production and control costs even during periods of price volatility. 1999 was a banner year as the Company succeeded in increasing production by 63%. New core areas at Red Creek, Wilder, and Beatton River, British Columbia and at Willesden Green, Claresholm and Pouce Coupe, Alberta are providing a solid foundation for the future. Given the positive outlook for natural gas prices, Courage will continue to weight exploration toward natural gas in western Canada.

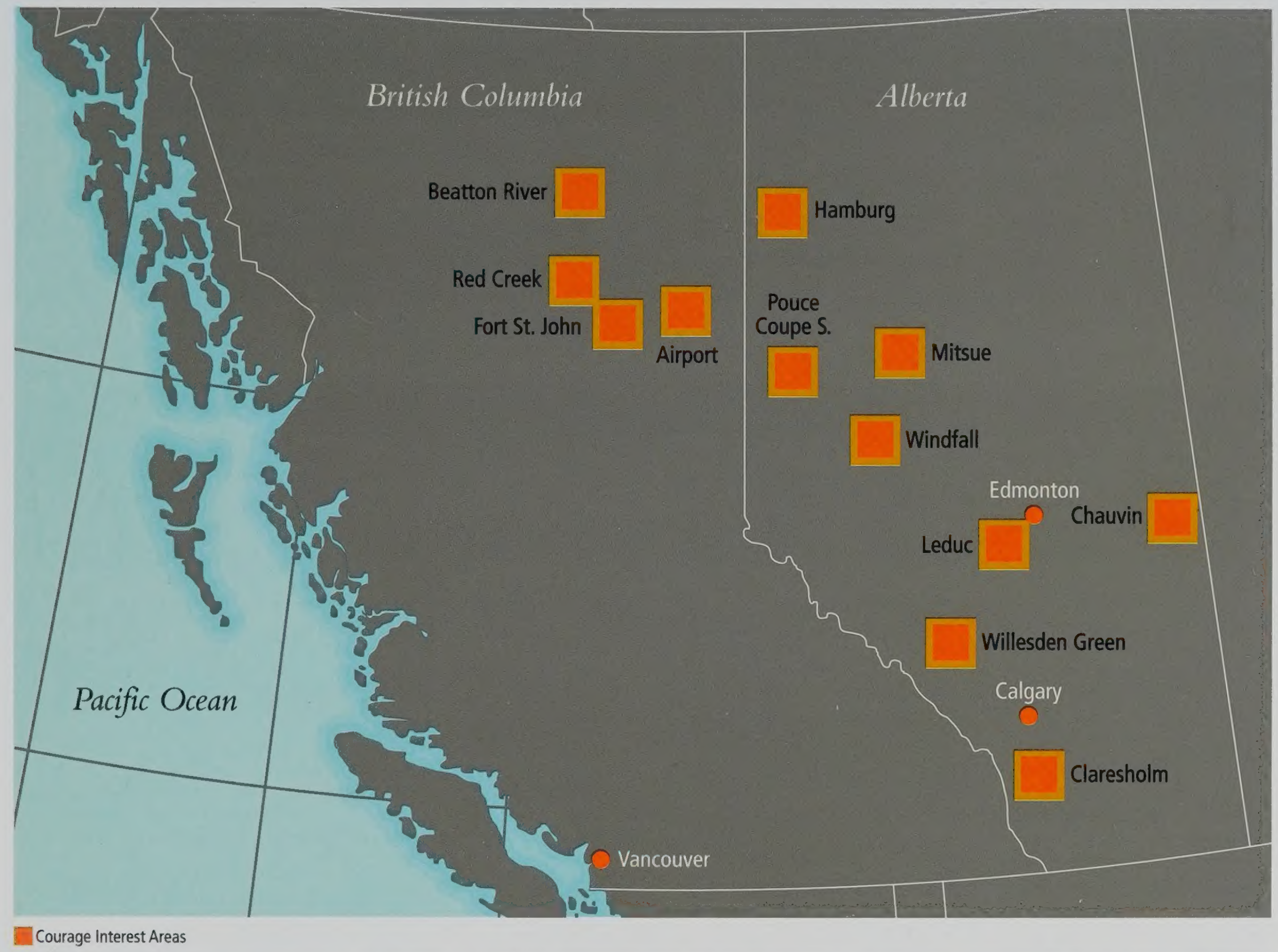
The 1999 exploration program yielded four new pool gas discoveries. In addition, Courage invested $4.1 million in land acquisition to build an inventory of new exploration prospects for the years ahead.

RED CREEK, BRITISH COLUMBIA

In 1998, Courage (100% interest) drilled its initial discovery at Red Creek, British Columbia, completing the well in the Halfway formation. The discovery was followed with a development well and the property was pipeline connected into the Westcoast system. Natural gas is processed at the Taylor gas plant and sales gas is sold into the spot market at a Sumas reference price. Production during the year averaged 5.1 mmcf/d and 17 bpd of ngl's.



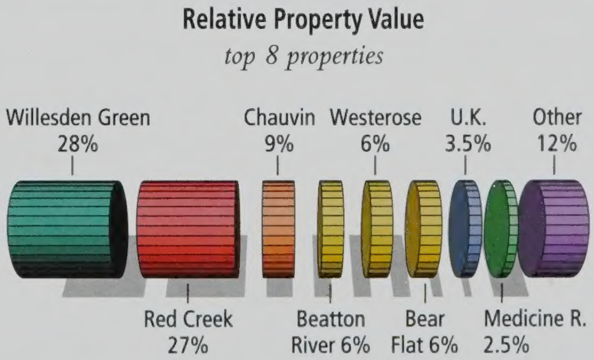
The Red Creek Halfway pool is a structural closure mapped with seismic. The structure is caused as a drape over deeper basement faults. The theory of deeper, stacked reservoirs, led to the drilling of a third well in December 1999. This well resulted in



a new pool discovery with natural gas pay in the Belloy and Kiskatinaw formations. The well was completed in the Kiskatinaw and production commenced on January 20, 2000, at a stabilized rate of 3.0 mmcf/d and 24 bpd of ngl's. The independent engineering report by McDaniel and Associates assigned established reserves of 3.75 bcf and 26,195 bbls of ngl's for the single spacing unit. Courage has correlated the producing zone into nearby offset wells and a larger pool is a possibility. A sustained production history and pressure analysis will ultimately prove the full extent of the pool.

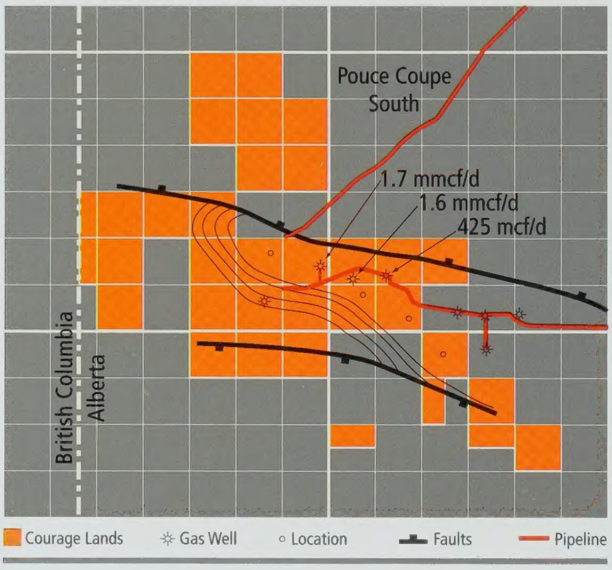
WILDER, BRITISH COLUMBIA

Six miles south of Red Creek is a new property, Wilder. The land straddles the escarpment of the Peace River and access is extremely difficult. During 1999, Courage acquired new proprietary seismic, taking great effort to obtain coverage over the escarpment. The results were the definition of a deep basement structure with the possibility of stacked reservoirs similar to Red Creek. Courage (100% interest) purchased the land at a crown land sale and proceeded to drill an exploration test well in December 1999.



The drilling of a well at 13-33-83-20W6 resulted in a multi-zone new pool gas discovery. Natural gas was discovered in the Belloy, Halfway, Baldonnel and in two Charlie Lake zones. The well was initially completed in the Belloy and Halfway

formations. The discovery will be pipeline connected north, into the Red Creek facilities, and production is scheduled to commence in April 2000. Initial production rates are estimated at 4.0 mmcf/d and 20 bpd of ngl's. Production history will determine the full impact of this discovery and a decision to drill an offset well is pending.



POUCE COUPE SOUTH, ALBERTA

Courage recently purchased an approximate 55% interest in a property at Pouce Coupe South, Alberta. This strategic acquisition added 3.0 mmcf/d of natural gas production net to the Company. In addition, Pouce Coupe establishes a new core area for Courage with operatorship and control of 21,385 (10,953 net) acres of land.

Geological and geophysical mapping indicates a deep basement faulted structure similar to Red Creek and Wilder. Currently, Pouce Coupe has six established producing formations with several undrilled development locations identified. The main producing horizon is the Baldonnel formation and Courage intends to drill up to four Baldonnel wells in the second half of 2000. Additional exploration upside in the surrounding area has the full attention of the exploration team.

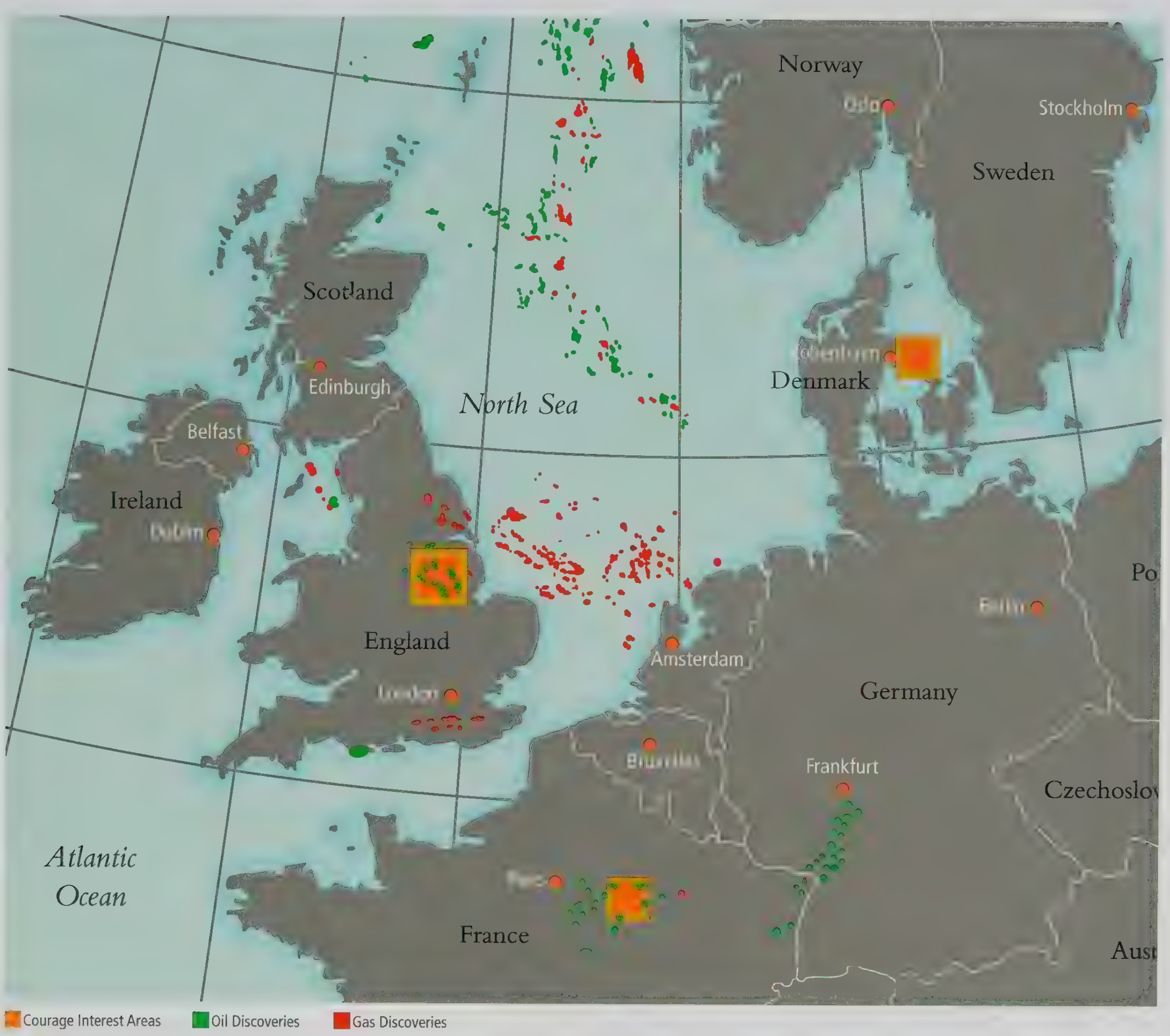
The purchase of Pouce Coupe was effective on December 31, 1999 but did not close until February 28, 2000. Because this purchase did not close until after year-end, the associated reserves are not included in the McDaniel Report.

CLARESHOLM, ALBERTA

Claresholm is an established area containing significant hydrocarbon pools with multiple pay zones. The closest production is a Glauconite natural gas pool at Eastmont, which has produced 40 bcf to date. Courage geologically mapped the potential for similar pools on undrilled acreage and quickly established a large land position of 15,360 (7,680 net) acres.

During 1999, Courage drilled three exploration wells resulting in two gas discoveries. In addition, a competitor drilled one gas discovery offsetting Courage lands. A natural gas pipeline is being built into the area and the establishment of a new core area is developing.

Exploration - International



The next step in the growth strategy for Courage is to make the transition from a junior to an intermediate-sized producer. To achieve this, Courage must gain exposure to higher impact, higher risk prospects. Domestically, this might be gained by pursuing deeper drilling west of the fifth meridian or into the foothills. Courage is already exploring some of these opportunities; however, the land is often leased to third parties, drilling is expensive and the competition is fierce.

An investment opportunity in the international arena, on the other hand, provides "Foothills-sized" prospects at attractive economics. International exploration provides Courage the opportunity to grow at a faster and more profitable rate and to a size that the Canadian domestic scene cannot provide. The long-term business plan foresees the Company's international effort as a self-sustaining entity with its own staff and accountability. A production base of 10,000 boe/d would be a good complement to the excellent exploration effort in domestic Canada and that is what Courage's international effort could provide with exploration success.

In addition to exploration drilling, there is a growing opportunity to purchase international assets. With the emergence of the new "Super Major" oil company, their focus has shifted into frontier areas where there is the potential for giant oil fields. This has left the smaller oil fields in conventional areas as non-strategic, and often neglected. Since the equity

markets have generally not supported the emergence of junior international oil companies, competition to purchase these international assets is less than purchasing assets in Canada.

As a move toward realizing this goal, Courage has positioned itself with an equity interest in exploration prospects in the United Kingdom, France and Denmark. Each of these areas are onshore and in a fiscal regime that is more favorable than in Canada.

UNITED KINGDOM

Courage has established a land position of 375,859 (134,812 net) acres in the East Midlands Basin, United Kingdom. During the past two years, Courage has participated in the discovery and development of three new oil pools at Fiskerton, Reepham and Newton. During 1999, these properties produced net production of 141 bopd and contributed $1,317,024 in revenue to the Company. Fiskerton is one of the Company's highest netback properties with a field netback of $15.87 per boe.

Courage believes that the geological potential of the East Midlands has only been scratched. The Company has seismically identified several undrilled structures and the potential for a stratigraphic trap has not been evaluated.

FRANCE

Courage committed to drill an exploration test well in the Paris basin, onshore France. The Charmelet prospect was identified after reprocessing and mapping approximately 400 kms of seismic data. The seismic delineated a large basement faulted structure covering 42 sq. kms containing a maximum closure of 170 meters. Producing oil fields surround the Charmelet prospect. The Villepurdue oil field is 20 kms to the north and has produced 40 million bbls of oil to date. The Villepurdue oil field has production facilities that could process and handle production from a potential discovery at Charmelet.

Courage will participate in the drilling of an exploration test well by paying 60% of the drilling costs to earn a 30% interest in the permit, operated by Coparex International, covering 98,306 (29,492 net) acres.

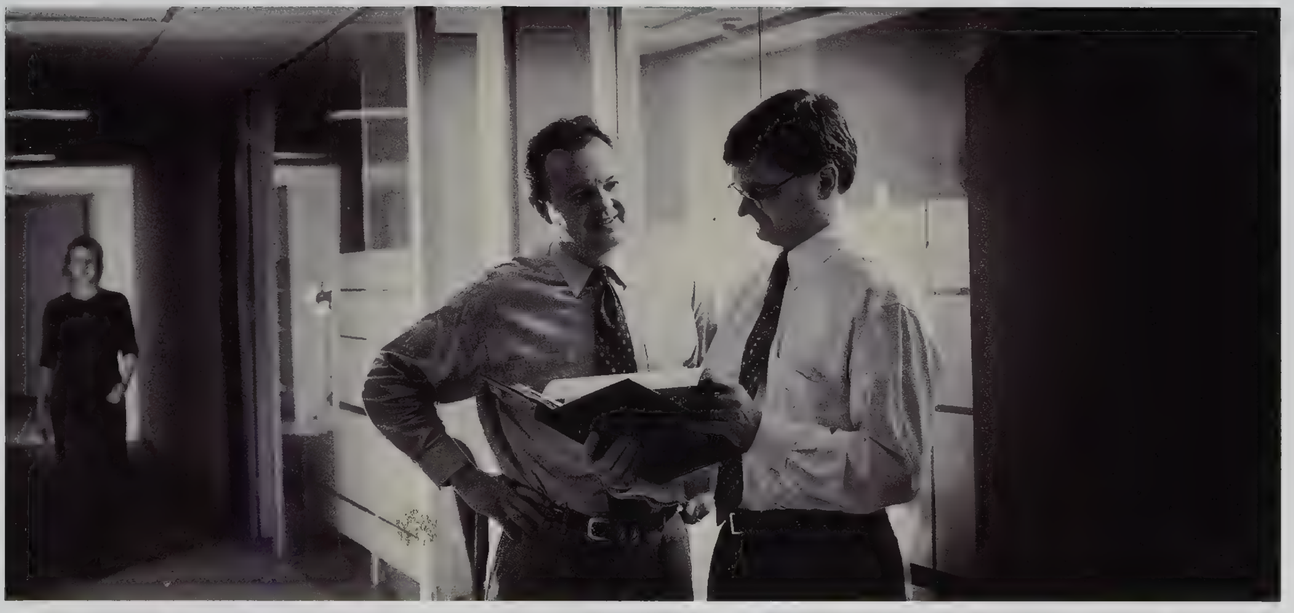
The Charmelet prospect is a high-risk exploration prospect but it is significant in many ways. It is the largest identified structure in the Paris basin and it will target the Triassic sandstone reservoirs at approximately 3,000 meters depth.

DENMARK

Courage made application to the Danish government and was awarded on May 1, 1999 a new oil and gas concession, named License 4/99. The concession contains 586,358 (187,635 net) acres in the Danish Basin. Approximately 30% of the concession is onshore Jutland and 70% is in the adjacent offshore Kattegat. Seismic data in the vicinity of the concession totals 1,150 kms. Courage has mapped a portion of the seismic and three large structures are identified. The Company believes that the area has the potential for large natural gas reserves, possibly several tcf.

Courage is the largest interest owner in the concession with a 32% interest. The concession is operated by Amerada Hess A/S. The group is currently reprocessing the seismic data and will complete an interpretation of the identified structures. Additional 2-D seismic is anticipated after the initial mapping. The crest of the largest structure, being approximately 50 sq. kms in size, could be tested with a conventional land rig, onshore Jutland.

Undeveloped Lands

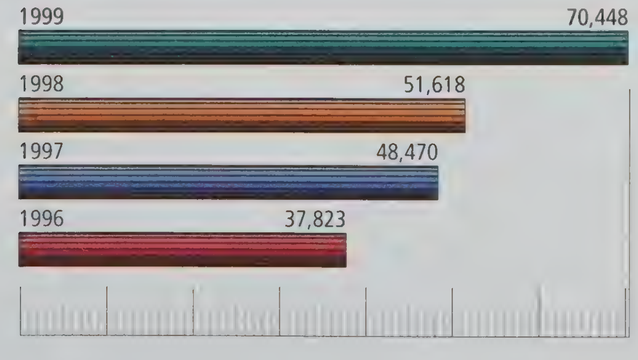


Courage increased its investment in undeveloped land by 223%, investing $4.2 million during 1999, up from $1.3 million in the prior year. The 1999 land budget represented 20% of total corporate expenditures. The increased investment in undeveloped land is indicative of the commitment Courage has to exploration and the strategy of building an inventory of prospects.

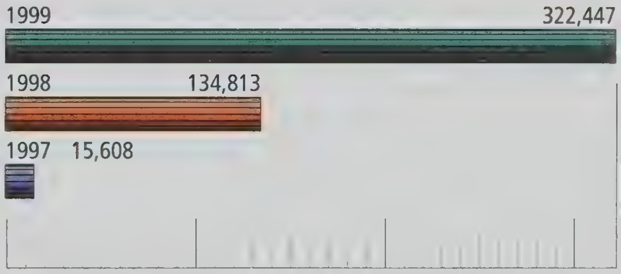
During the year, Courage was very active at crown land sales in western Canada. In Alberta, the Company purchased 26,240 (23,424 net) acres at an average cost of $111.45 per acre. In British Columbia, Courage purchased 7,297 acres, all at a 100% interest, for an average consideration of $168.60 per acre. Additional lands were also acquired through farm-in or pooling arrangements with other operators. The expansion in the Company's undeveloped land base complements the exploration focus and provides future growth opportunities.

International exploration was expanded with the successful award of License 4/99 in Denmark containing 586,358 (187,635 net) acres. In France, the negotiation of a farm-in on 98,306 (29,492 net) acres has provided an exciting opportunity to participate in a 50 million bbl exploration prospect.

Undeveloped Land - Canada
net acres



Undeveloped Land - International
net acres



Production and Operations

PRODUCTION VOLUMES

At the beginning of 1999, the industry was recovering from the lowest oil prices in over fifteen years. In response, capital expenditures during the first nine months of 1999 were primarily directed at field operations to improve well performance and efficiency. New pipeline projects to connect shut-in wells were advanced and drilling was limited to natural gas prospects.

These operations were successful at increasing production volumes by 63%. Natural gas production averaged 18.4 mmcf/d, up 88% from 9.8 mmcf/d in 1998. Natural gas liquids increased by 37% to average 424 bpd, up from 310 bpd in the prior year. The increase in ngl production was primarily the result of the higher natural gas volumes. Oil production was slightly higher, averaging 832 bopd, up 17% from 710 bopd in the prior year. Most of the gain in oil production is attributable to the commencement of production from the United Kingdom.

OPERATIONS

A summary of field operations is as follows:

At Red Creek, British Columbia, (Courage 100% interest) a new Kiskatinaw discovery was pipeline connected. Surface facilities were installed and production commenced in January 2000 at 3.0 mmcf/d and 24 bpd of ngl's.

The existing production at Red Creek, British Columbia, (Courage 100% interest) averaged 5.1 mmcf/d from the Halfway formation during 1999. Production is delivered into a high-pressure pipeline and it was recognized that this production would start to decline as the flowing tubing pressure dropped below the pipeline pressure. It was therefore decided to install a gas compressor and production rates increased to 6.5 mmcf/d, commencing in January 2000.

Beatton River, British Columbia, is in the northern muskeg region of Canada and access is usually restricted to the winter months when the ground is frozen. During the 1999 winter season, Courage (100% interest) drilled a new gas discovery, built a pipeline, installed surface facilities, and connected

an existing shut-in well, all within the short time line. Production commenced in March 1999 and averaged 3.75 mmcf/d during the nine months.

At Willesden Green, Alberta, Courage drilled two development wells. The first well (100% interest) was drilled into the Glauconite pool. The well was pipeline connected into existing facilities and production commenced in October 1999 at 3.1 mmcf/d and 170 bpd ngl's. The second well (66% interest) encountered natural gas pay in the Ostracod formation at a rate of 1.0 mmcf/d. The well is scheduled to be pipeline connected in the summer of 2000. Both wells encountered good oil pay in a secondary zone and Courage anticipates drilling offset wells for the oil potential in the current year.

At Medicine River, Alberta, four low productivity wells were completed in the Glauconite and Cardium formations. Pipeline connection and compression added net production of 920 mcf/d and 44 bpd oil and ngl's during the year.

At Leduc, Alberta, Courage negotiated access to a sour gas plant and pipeline connected the discovery with production commencing in April 1999. The single well (100% interest) was completed in the Wabamun zone at initial rates of 1.4 mmcf/d.

Annual Production Per 1,000 Shares
boe 6:1

Unfortunately, this well has not met expectations and production has declined to 500 mcf/d over the course of the year.

At Chauvin, Alberta, (87.5% interest) a water injection pattern into the Sparky oil pool was enhanced to provide pressure maintenance. It is anticipated that an incremental 75 bopd will result, commencing in year 2000.

In the United Kingdom, Courage (18% interest) participated in the completion of the Fiskerton oil discovery. Production is now pipeline connected to an oil terminal at Welton and production commenced in April 1999. Net production from the U.K. averaged 141 bopd during the year.

1999 DRILLING ACTIVITY
(number of wells)

	Exploration		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
Gas	5	3.75	3	2.16	8	5.91
Oil	1	0.40	0	0	1	0.40
D&A	6	3.21	4	2.49	7	5.66
Total	12	7.39	7	4.65	19	12.01
	50% Success Rate		43% Success Rate			

Reserves

OIL AND NATURAL GAS RESERVES

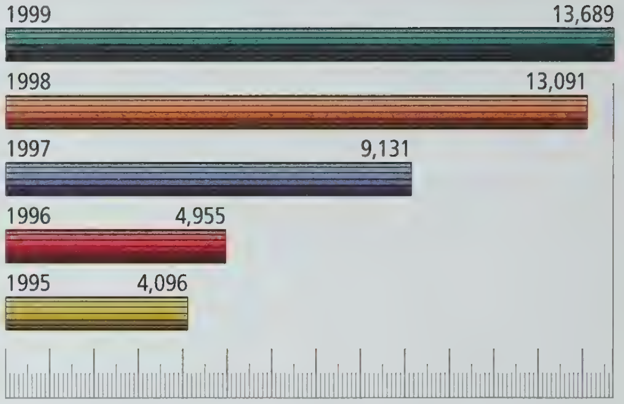
The oil and natural gas reserves of Courage Energy Inc. were evaluated by the independent engineering firm of McDaniel and Associates Consultants Ltd., effective January 1, 2000. The price assumptions used in the Report are summarized in the table on page 16. All revenues were calculated before income tax and include a provision for the Alberta Royalty Tax Credit (ARTC).

In the Report, natural gas volumes are converted to a barrel of oil equivalent (boe) using a conversion ratio of 6:1. Certainly the world standard, including in the United States, is a 6:1 conversion ratio. This most closely equates to an energy content equivalency and it is the new standard that the Canadian oil industry is moving toward.

The 1999 exploration program was concentrated in the fourth quarter. New discoveries at Red Creek and Wilder, British Columbia and at Willesden Green, Alberta added significant proven reserve additions. Courage added 3,856,222 boe of proven reserves, before revisions, at a finding and development (F&D) cost of $5.32 per boe. Prior year revisions accounted for a negative adjustment to natural gas reserves associated with an under performing property at Leduc, Alberta. Proven reserve additions, including revisions, were 2,367,640 boe at a F&D cost of $8.68 per boe.

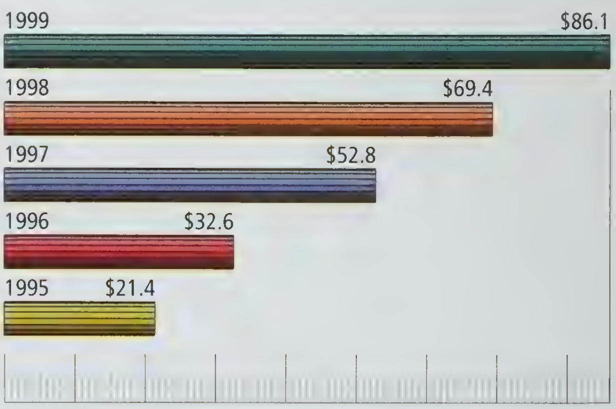
New exploration discoveries occurring at year-end sometimes have limited production history or analog production by which to judge reserves. This was the situation at Claresholm, Alberta and no reserve additions have been booked to this property. Similarly, Courage purchased a natural gas property at Pouce Coupe South, Alberta. This property purchase is effective on December 31, 1999 but did not financially close until February 28, 2000. Because of the year 2000 closing, this purchase is not included in the year-end reserve report.

Established Reserves
thousands of boe

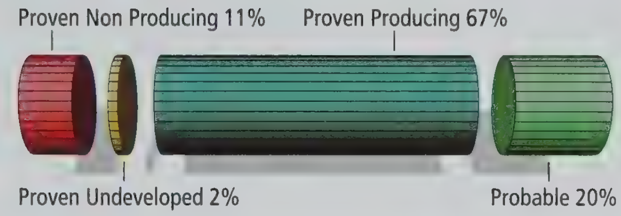


Capital expenditures included in calculating the F&D costs were $4.1 million in land acquisition and $1.5 million in seismic acquisition. Most of these are front-end costs to the Company's exploration program and few reserve additions can be attributed to these expenditures until a drilling program can evaluate the new lands. For this reason, a three-year average F&D calculation is more representative of the Company's drilling success. During the past three years, Courage increased its proven reserves, net of production, by 64% at an average F&D cost of $4.44 per boe. The low F&D costs are a tribute to the exploration team and also a strong contributing factor to the Company's profitability.

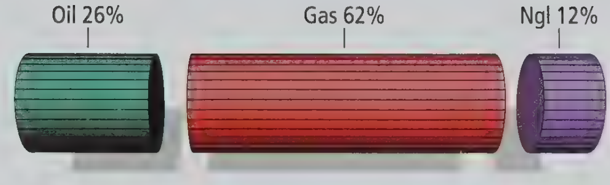
Established Reserves - Present Worth Value
millions of dollars - DCF @ 12.5%



Reserve Distribution
by reserve class



Reserve Distribution
by product



RECONCILIATION OF WORKING INTEREST RESERVES

as at January 1st , 2000

	Oil (bbls)	Ngl (bbls)	Gas (mcf)	Total (boe)
Proven				
January 1, 1999	2,182,400	1,003,500	49,553,000	11,444,733
1999 Production	(303,680)	(154,760)	(6,730,600)	(1,580,207)
Proven Additions	0	408,070	20,688,910	3,856,222
Property Acquisition	66,650	0	0	66,650
Property Disposition	(33,075)	(12,300)	(363,250)	(105,917)
Prior Years Revisions	168,505	(136,110)	(9,125,860)	(1,488,581)
Total Proven	2,080,800	1,108,400	54,022,200	12,192,900
Probable				
January 1, 1999	987,700	321,990	11,898,500	3,292,773
Probable Additions	—	58,320	5,034,900	897,470
Prior Years Revisions	(253,080)	(187,950)	(4,540,800)	(1,197,830)
Total Probable	734,620	192,360	12,392,600	2,992,413
Total Proven + Probable	2,815,420	1,300,760	66,414,800	15,185,313
Total Established[1]	2,448,110	1,204,580	60,218,500	13,689,107

(1) Established reserves = proven reserves plus 50% probable reserves

RESERVE REPLACEMENT

	1999	1998	1997
Proven Reserve Additions (boe)	**2,367,640**	4,972,317	4,216,863
Production (boe)	**1,580,207**	968,467	818,087
Production Replaced with Proven Reserves (%)	**150**	513	515
Established Reserve Additions (boe)	**2,217,460**	4,927,562	4,994,726
Production Replaced with Established Reserves (%)	**140**	509	610

RESERVE LIFE INDEX

	Oil	Ngl	Gas	Boe
Proven Reserves (years)	6.8	7.2	8.0	7.7
Established Reserves (years)	8.1	7.8	8.9	8.7

FINDING AND DEVELOPMENT COST

	Three Year Results	1999	1998	1997
Total expenditures ($)	51,306,879	**20,556,467**	16,146,933	14,603,479
Proven reserve additions (boe)	11,556,820	**2,367,640**	4,972,317	4,216,863
Average cost ($/boe)	4.44	**8.68**	3.25	3.46
Established reserve additions (boe)	12,139,748	**2,217,460**	4,927,562	4,994,726
Average cost ($/boe)	4.23	**9.25**	3.28	2.92

PRESENT WORTH VALUES - NET ASSET VALUES (1)

as at January 1st , 2000

		Discounted At		
	Undiscounted	10%	12.5%	15%
Proven Remaining	$ 116,356,000	$ 85,837,700	$ 80,637,300	$ 76,095,900
Probable Additional	25,297,000	12,590,200	10,900,000	9,532,200
Total Reserve Value	141,653,000	98,427,900	91,537,300	85,628,100
Undeveloped Properties	12,087,000	12,087,000	12,087,000	12,087,000
Working Capital	(3,011,722)	(3,011,722)	(3,011,722)	(3,011,722)
Long Term Debt	(21,250,000)	(21,250,000)	(21,250,000)	(21,250,000)
Net Asset Value	$ 129,478,278	$ 86,253,178	$ 79,362,578	$ 73,453,378
NAV per share (proven)	$ 4.09	$ 2.89	$ 2.69	$ 2.51
NAV per share (established)	$ 4.59	$ 3.14	$ 2.90	$ 2.70

(1) Excludes reserve value assigned to a property purchase at Pouce Coupe South, Alberta, effective December 31, 1999.

SUMMARY OF PRICE FORECASTS

Year	WTI Crude Oil $US/bbl	Edmonton Light Crude Oil $Cdn/bbl	Alberta Average Natural Gas $Cdn/mmbtu	Edmonton Cond. & Natural Gasolines $Cdn/bbl	Edmonton Ngl Mix $Cdn/bbl
2000	25.00	35.20	3.25	34.50	24.70
2001	21.50	29.30	3.20	28.70	20.60
2002	20.90	28.00	3.10	27.40	19.80
2003	21.30	28.50	3.00	27.90	20.00
2004	21.70	29.10	2.90	28.50	20.20

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) is a review of the operations, financial position and outlook for Courage. This MD&A should be read in conjunction with the audited financial statements. This section includes certain forward looking statements. Although the Company believes that its expectations are based on reasonable assumptions, it is important to note that actual results could differ materially from those projected by such forward looking statements as a result of risk factors discussed elsewhere in this section.

VOLUME REPORTING

This analysis is presented on a barrel of oil equivalent basis. Natural gas volumes are converted at a ratio of 6 mcf = 1 boe. This conversion ratio approximates the relative energy content between natural gas and oil.

HIGHLIGHTS

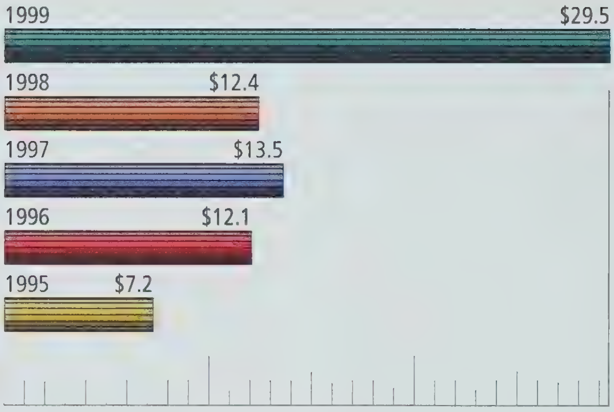
Courage continued to add shareholder value in 1999 through finding low cost gas reserves. The Company achieved record increases in both production and profitability. Highlights of Courage's financial performance for the year ended December 31, 1999 are as follows:

- 63% increase in production to average 4,329 boe/d
- 137% growth in revenue to $29.5 million
- 161% gain in cash flow to $14.4 million ($0.57 per share basic)
- 398% rise in earnings to $5.0 million ($0.20 per share)
- 27% increase in capital expenditures to $20.6 million

PRODUCTION AND REVENUE

Petroleum and natural gas revenues grew significantly to $29,461,305, a 137% gain from $12,443,678 the previous year as Courage benefited from the substantial increase in both production volumes and product prices. Production volumes of 4,329 boe/d during 1999 were up 63% from 2,653 boe/d in 1998. Natural gas production increased 88% to 18.4 mmcf/d from 9.8 mmcf/d in 1998. This increase is primarily due to production additions from the Red Creek and Beatton River areas in British Columbia.

Revenue, oil & gas
millions of dollars



The positive commodity price environment is expected to continue and, coupled with the anticipated production growth, provides an optimistic outlook for the coming year 2000. Courage uses a combination of fixed price, monthly index and spot price contracts to market its natural gas. Gas production of 5.7 mmcf/d, has been fixed at an average field price of $3.12 per mcf until October 31, 2000 and 2.8 mmcf/d has been fixed at $3.63 per mcf until March 31, 2000.

PRODUCTION VOLUMES

	1999	1998
Natural gas (mcf/d)	18,440	9,800
Oil (bpd)	832	710
Ngl (bpd)	424	310
Total (boe - 6:1 basis)	4,329	2,653
Total (boe - 10:1 basis)	3,100	2,000

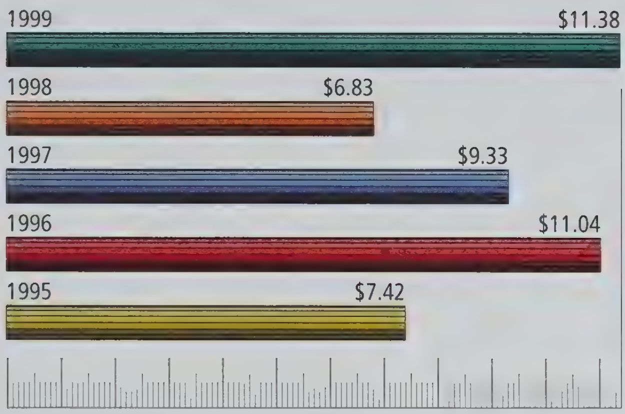
PRODUCT PRICING

	1999	1998
Natural gas ($Cdn/mcf)	$ 2.95	$ 2.22
Oil ($Cdn/bbl)	$ 23.58	$ 13.94
Ngl ($Cdn/bbl)	$ 21.40	$ 15.55

RESULTS OF OPERATIONS

Income Statements	1999		1998		% Change
	(Thousands)	(per boe)	(Thousands)	(per boe)	(per boe)
Oil and gas revenue	$ 29,461	$ 18.64	$ 12,444	$ 12.85	+ 45%
Gas contract payout	—	—	1,224	1.26	—
Royalties, net of ARTC	(4,302)	(2.72)	(1,682)	(1.74)	+ 56%
	25,159	15.92	11,986	12.37	+ 29%
Operating expense	7,169	4.54	4,141	4.28	+ 6%
Depletion and depreciation	5,916	3.74	3,697	3.82	- 2%
General and administration	1,925	1.22	1,392	1.44	- 14%
Non-recurring takeover expenses	332	0.21	—	—	—
Interest expense	1,202	0.76	849	0.88	- 14%
Site restoration provision	237	0.15	135	0.14	+ 7%
	16,781	10.62	10,214	10.56	+ 1%
Earnings before income tax	8,378	5.30	1,772	1.81	+ 193%
Large corporations tax	110	0.07	81	0.08	-13%
Deferred income tax	3,233	2.05	680	0.70	+ 193%
	3,343	2.12	761	0.78	+ 172%
Net earnings	$ 5,035	$ 3.18	$ 1,011	$ 1.03	+ 209%
Funds from operations	$ 14,421	$ 9.12	$ 5,523	$ 5.69	+ 60%

Field Netback
dollars per boe



FIELD NETBACK

Courage had a field netback of $11.38 per boe in 1999, up 67% from $6.83 per boe in 1998. The netback represents the profitability of the Company's production after deducting royalties and operating expense. The higher netback in 1999 reflects higher commodity prices that were only partially offset by higher royalty expense and field operating expense.

	1999	1998
Wellhead price ($/boe)	$ 18.64	$ 12.85
Royalties, net of ARTC	2.72	1.74
Field operating expense	4.54	4.28
Field netback ($/boe)	$ 11.38	$ 6.83

Courage anticipates that the field netback will remain relatively unchanged in the year ahead. Production additions are primarily of natural gas; the price of natural gas is strong and expected to remain stable.

ROYALTIES AND ARTC

Royalty expense, net of ARTC, increased to 14.6% of gross revenue in 1999 compared to 13.5% the previous year. Crown, freehold and overriding royalty expense amounted to $5,030,688, an increase of 155% from the $1,974,419 incurred in 1998. This increase is primarily the result of higher production volumes and higher commodity prices resulting in higher royalty charges on production revenue and higher royalty expense associated with production from the province of British Columbia.

Alberta Royalty Tax Credit ("ARTC") of $728,486 was 149% higher in 1999 than $292,631 in 1998. This gain can be attributed primarily to higher revenues originating from Alberta Crown lands.

Courage expects ARTC receipts to decrease in 2000 due to much higher commodity prices reducing the ARTC rate. The Alberta government has announced that it will review the ARTC program and the continuing benefit of this program may diminish in the years ahead.

FIELD OPERATING EXPENSE

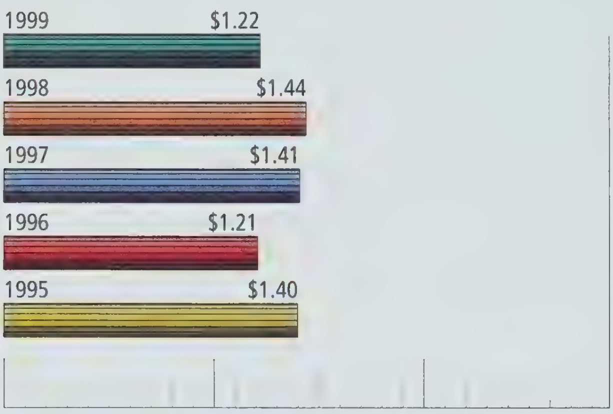
Field operating expense totaled $7,169,288 in 1999, an increase from $4,140,842 the previous year, reflecting higher production volumes. On a per unit basis, field operating expense increased by 6% to $4.54 per boe in 1999 versus $4.28 per boe a year ago. Higher per unit operating costs are primarily due to increased production from the province of British Columbia which is generally a higher cost area.

Operating Expense
dollars per boe

DEPLETION AND DEPRECIATION

During 1999, depletion and depreciation increased to $5,915,700 from $3,696,780 in 1998. On a per unit basis the depletion charge actually decreased to $3.74 per boe in 1999 from $3.82 per boe in 1998. The increase is the result of higher production levels and relatively smaller proven reserve additions. The overall depletion rate was 11.4% in 1999 compared to 8.1% in 1998.

Administration Expense
dollars per boe



GENERAL AND ADMINISTRATION EXPENSE

General and administration expense increased to $1,925,068 in 1999 from $1,391,869 in 1998, primarily due to increased staff levels and the costs associated with a larger staff. On a per unit basis, general and administration expense decreased to $1.22 per boe in 1999 from $1.44 per boe in 1998. Courage does not capitalize any general and administration expense.

Courage anticipates that general and administration expenses will increase during 2000 as the Company continues to grow and require additional staff and office space. Production additions in 2000 should result in the cost per boe declining from 1999 levels.

During the year, Courage incurred $332,404 of takeover costs in conjunction with the unsuccessful takeover bid for AltaQuest Energy Corporation. The Company has commenced legal action to secure payment of the $500,000 break fee from AltaQuest. The December 31, 1999 financial statements do not reflect any estimated recovery of the break fee.

INTEREST EXPENSE

Courage incurred $1,202,007 in interest on long-term debt during 1999, compared to $848,854 in 1998. This 42% increase is due primarily to an increased draw on the Company's credit facility.

Courage anticipates that interest costs will increase in 2000 as both interest rates and the average utilization of bank credit will increase from 1999 levels.

INCOME TAXES

The provision for deferred income tax increased significantly in 1999 to $3,233,170 from $680,000 in 1998, commensurate with the dramatic increase in earnings before taxes. Large corporation tax increased to $109,480 from $81,400 due to continued growth in the Company's asset base.

GENERAL AND ADMINISTRATION EXPENSE

	1999		1998	
	Total (Thousands)	(per boe)	Total (Thousands)	(per boe)
Gross general and administration expense	**$ 2,257**	**$ 1.43**	$ 1,703	$ 1.76
Capital and operating overhead recoveries	**(332)**	**(0.21)**	(311)	(0.32)
Net general and administration expenses	**$ 1,925**	**$ 1.22**	$ 1,392	$ 1.44
Average number of head office employees	**17**		14	

CANADIAN OIL AND GAS TAX POOLS

	Millions
Canadian Exploration Expenditures	$ 5.5
Canadian Development Expenditures	10.5
Canadian Oil and Gas Property Expenditures	11.3
Undepreciated Capital Cost	9.7
Other	0.9
	$ 37.9

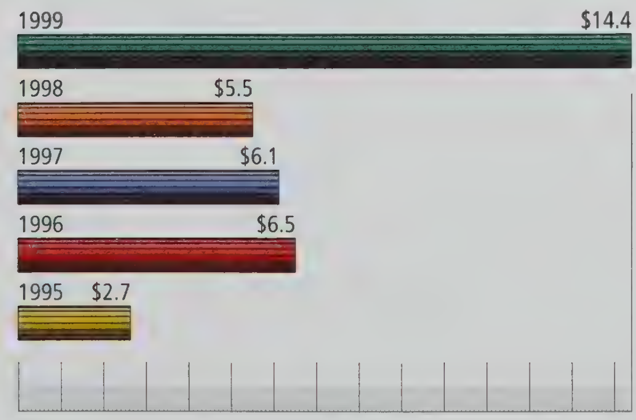
Courage has tax pools available to shelter future income tax of approximately $37,890,000 in Canada and $4,900,000 in the United Kingdom at December 31, 1999. Current taxes, other than large corporation tax, are not expected to be payable in 2000.

CASH FLOW AND NET EARNINGS

Cash flow increased by 161% to $14,420,856 in 1999 from $5,523,025 in 1998 due to increased production volumes and much higher commodity prices.

Net earnings increased significantly by 398% to $5,035,096 in 1999 compared to $1,010,875 in 1998. The improvement in earnings was directly attributable to higher production volumes and commodity prices. Courage forecasts continued earnings growth in 2000 as a result of strong commodity prices and production gains from the 1999 exploration program.

Cash Flow
millions of dollars



CAPITAL EXPENDITURES

In 1999, Courage continued to increase the Company's undeveloped lease acreage and seismic data base to support the ongoing development of exploration prospects. The main focus was on domestic activity, primarily in northeastern British Columbia.

	1999 (Millions)	1998 (Millions)
Canada		
Land acquisition	**$ 4.1**	$ 1.3
Seismic	**1.1**	1.2
Drilling and completion	**8.7**	6.7
Facilities and equipment	**4.3**	3.5
Acquisitions and divestitures	**0.9**	(1.2)
United Kingdom		
Land	**0.1**	
Seismic	**0.2**	0.9
Drilling and completion	**0.5**	2.4
Facilities and equipment	**0.3**	0.4
Acquisitions	**—**	1.0
France		
Seismic	**0.4**	—
Total expenditures	**$ 20.6**	$ 16.2

Total capital expenditures of $20,556,467 in 1999 represents a 27% increase from $16,146,933 in 1998. These expenditures yielded proven reserve additions, before revisions, of 3.86 million boe, for a finding and development cost of $5.32 per boe. The three year average finding and development cost, includng revisions, is $4.44 per proven boe and $4.23 per established boe. The 1999 finding and development cost was higher as expenditures were directed toward increasing the number of exploration prospects. The benefits of these expenditures should be realized in future years.

LIQUIDITY AND CAPITAL RESOURCES

Courage had a working capital deficiency of $3,011,722 at December 31, 1999, representing approximately only two months of 1999 average fourth quarter annualized cash flow.

The Company increased its line of credit to $30 million in 1999 and this credit facility was again increased to $38 million during the first quarter 2000. The credit line is reviewed annually.

The draw of $21,250,000 on the credit line at December 31, 1999 is an increase from $16,216,000 at year end 1998. The increase in long-term debt is within the Company's credit limits and lending covenants. Despite the availability of additional credit, Courage plans to base future capital expenditures on expected cash flow.

SHARE CAPITAL

The common shares of Courage Energy Inc. trade on The Toronto Stock Exchange under the symbol "CEO". Total shares outstanding at December 31, 1999 were 25,357,467, a 1.6% increase from the 24,948,117 shares outstanding at December 31, 1998. Market capitalization at December 31, 1999 was $68.5 million a 66% increase over $41.2 million at December 31, 1998.The 1999 trading activity is summarized below.

During the year, 739,250 common shares were issued through the exercise of stock options for total proceeds of $1,597,613 or $2.16 per share.

In 1999, Courage purchased for cancellation 329,900 common shares for a total consideration of $862,909 pursuant to a Normal Course Issuer Bid. It is the Company's belief that the current market price does not reflect the true value of the common shares and therefore purchasing them represents a good investment. Under the terms of the Issuer Bid, the Company is permitted to purchase and cancel up to 1.2 million shares prior to May 24, 2000.

Shareholders' Equity
millions of dollars

BUSINESS RISKS

The oil and natural gas industry is subject to risks relating to finding and developing petroleum and natural gas reserves, the commodity price received on production of such reserves and changes in government regulation and taxation. Courage mitigates these risks by:

- Maintaining cost effective operations, including acting as operator, wherever possible, to control the amount and timing of capital expenditures
- Drilling wells in areas with multi-zone potential
- Diversifying its asset base over a number of properties

TRADING ACTIVITY

1999	High	Low	Close	Volume
1st Quarter	$1.90	$1.40	$1.65	819,787
2nd Quarter	2.40	1.50	2.25	1,940,709
3rd Quarter	3.49	2.20	2.75	2,411,440
4th Quarter	2.85	2.30	2.70	1,305,007
Total	$3.49	$1.40	$2.70	6,476,943

- Using new technology to maximize production recoveries
- Maintaining appropriate insurance to protect the Company's assets

ENVIRONMENTAL

Oil and natural gas operations are usually subject to risks normally associated with developing and operating petroleum properties. However, Courage maintains programs to assure safe operating practices on its own properties and carries liability insurance in such amounts it considers prudent.

Courage has developed an Emergency Response Policy and Plan designed to protect its personnel, subsidiaries, assets, the environment and the public. This plan includes a manual with step by step procedures to prevent the occurrence of an environmental incident and a detailed procedure to respond and contain any environmental incident.

All personnel under contract to Courage are to be aware of the Emergency Plan and understand their individual responsibilities. Courage has operated under strict environmental guidelines and regulations and, to date, Courage has not had a major or material environmental incident.

The estimated future cost of abandonment and reclamation for wells and facilities is expensed over the useful lives of the assets. A liability for future restoration costs of $782,714 is provided on the balance sheet. During 1999, Courage recorded expenditures relating to abandonment and reclamation of $315,548 (1998-$20,000), in addition to the indirect costs of administering its environmental management systems.

YEAR 2000

Courage has reviewed its critical internal systems and upgraded or replaced them where required. Much of the Company's production is processed through facilities owned by third parties. While the Year 2000 date has now passed it is still not possible to be certain that all aspects of the Year 2000 issue affecting Courage, including those related to the efforts of customers, suppliers or other third parties have been fully resolved.

Based on its analysis to date, Courage believes that its exposure to the Year 2000 problem is under appropriate control. Costs associated with ensuring the Company's compliance are not expected to be material and will be charged against earnings as incurred.

OUTLOOK

Courage is poised for substantial growth in the year 2000. The Company's strong undeveloped land position coupled with its 1999 drilling successes have enabled the Company to embark on an active drilling program in 2000.

Continued strength in commodity prices is a decisive factor in the 2000 capital investment program as raising equity capital has been extremely difficult in a marketplace that is generally focused on the larger capitalized resource companies. Consequently, Courage's drilling plans and resultant increases in production and cash flow are impacted by the industry environment.

Management's Report

• Management takes responsibility for the preparation and presentation of the financial statements together with the operational information contained in this annual report. The financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada.

• Estimates have been used in the preparation of the financial statements when transactions affecting the report period cannot be finalized until a later date. The carrying value of the oil and gas interests reflects management's best judgments with regard to the underlying assets. Other financial information contained throughout the annual report is consistent with that provided in the financial statements.

• Management has developed and maintains a system of internal control that provides reasonable assurance that all transactions are accurately and reliably recorded, that the financial statements accurately report the Company's operating and financial results, and that the Company's assets are safeguarded.

• The Audit Committee, comprised of non-management directors, acts on behalf of the Board of Directors to ensure that management fulfills its financial reporting and internal control responsibilities. The Audit Committee has reviewed the financial statements with management and with PricewaterhouseCoopers LLP, the Company's external auditors, and has reported to the Board of Directors thereon. The Board of Directors has approved these financial statements.

R.G. Moffat
President & CEO

T.H. Hefter
Secretary-Treasurer

Auditors' Report

to the Shareholders

We have audited the consolidated balance sheets of Courage Energy Inc. as at December 31, 1999 and 1998 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 24, 2000

Consolidated Balance Sheets

as at December 31, 1999 and 1998

	1999	1998
ASSETS		
Current assets		
Cash	$ 252,416	$ 963,119
Accounts receivable and prepaids	4,438,975	3,106,722
	4,691,391	4,069,841
Property, plant and equipment (note 2)	61,740,797	48,309,466
	$ 66,432,188	$ 52,379,307
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 7,703,113	$ 6,389,306
Long-term debt (note 3)	21,250,000	16,216,000
Deferred income taxes	5,320,493	2,091,697
Site restoration provision	782,714	861,372
	$ 35,056,320	$ 25,558,375
SHAREHOLDERS' EQUITY		
Capital stock (note 4)	$ 23,182,730	$ 23,102,016
Retained earnings	8,193,138	3,718,916
	31,375,868	26,820,932
	$ 66,432,188	$ 52,379,307

Approved on behalf of the Board:

R.G. Moffat
Director

R.E. Newman
Director

See the accompanying notes to these consolidated financial statements.

Consolidated Statements of Earnings and Retained Earnings

Years Ended December 31, 1999 and 1998

	1999	1998
REVENUES		
Oil and gas	$ 29,461,305	$ 12,443,678
Proceeds on payout of gas contract (note 8)	—	1,224,100
Royalties	(5,030,688)	(1,974,419)
Alberta royalty tax credit	728,486	292,631
	25,159,103	$ 11,985,990
EXPENSES		
Operating	7,169,288	4,140,842
General and administration	1,925,068	1,391,869
Non-recurring takeover costs	332,404	
Interest on long-term debt	1,202,007	848,854
Depletion and depreciation	5,915,700	3,696,780
Site restoration provision	236,890	135,370
	16,781,357	10,213,715
Earnings before income taxes	8,377,746	1,772,275
TAXES		
Large corporation tax	109,480	81,400
Deferred income taxes (note 5)	3,233,170	680,000
	3,342,650	761,400
Net earnings for the year	5,035,096	1,010,875
Retained earnings - Beginning of year	3,718,916	2,806,939
Reduction of retained earnings on acquisition of shares (note 4(d))	(560,874)	(98,898)
Retained earnings - End of year	$ 8,193,138	$ 3,718,916
Basic earnings per share	$ 0.20	$ 0.04
Fully diluted earnings per share	$ 0.20	$ 0.04

See the accompanying notes to these consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 1999 and 1998

	1999	1998
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net earnings for the year	$ 5,035,096	$ 1,010,875
Items not affecting cash -		
Depletion and depreciation	5,915,700	3,696,780
Deferred income taxes	3,233,170	680,000
Site restoration provision	236,890	135,370
	14,420,856	5,523,025
Net changes in non-cash working capital balances related to operations	(885,879)	(516,152)
	13,534,977	5,006,873
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(20,556,467)	(16,146,933)
Site restoration costs	(315,548)	(20,000)
Net changes in non-cash working capital	867,433	(58,500)
	(20,004,582)	(16,225,433)
FINANCING ACTIVITIES		
Issuance of long-term debt	5,034,000	8,211,000
Issue of common shares for cash, net of issue costs	1,587,812	3,002,818
Common shares repurchased	(862,910)	(212,121)
	5,758,902	11,001,697
Decrease in cash during the year	(710,703)	(216,863)
Cash - Beginning of year	963,119	1,179,982
Cash - End of year	$ 252,416	$ 963,119
Basic funds provided from operations per share	$ 0.57	$ 0.24
Fully diluted funds provided from operations per share	$ 0.54	$ 0.24
Cash flow supplemental information - cash (paid) received		
Tax paid	(175,365)	(24,663)
Interest paid	(1,236,647)	(895,720)

See the accompanying notes to these consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended December 31, 1999 and 1998

The Company is engaged in the acquisition, exploration, development and production of petroleum and natural gas resources in Western Canada, the United Kingdom ("U.K.") and France.

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiary, Courage Energy (U.K.) Limited.

Property, plant and equipment

The Company follows the full cost method of accounting under which all costs related to the exploration for and development of petroleum and natural gas properties are capitalized in separate cost centres for Canada, the U.K. and France. Such costs include land acquisition costs, geological and geophysical expenses, lease rentals on non-producing properties and costs of drilling both productive and non-productive wells.

Property costs, inclusive of costs associated with future development, are depleted on the unit of production method based on the estimated proven reserves before royalties as determined by independent reservoir engineers. Natural gas reserves are converted into equivalent barrels of oil based upon relative energy content. The net book value of capital costs is limited to estimated future net revenue from production of proved reserves using prices and operating costs in effect at year-end, plus the cost of unproved properties less management's estimate for impairment. This test also accounts for future general and administration expenses, future removal and site restoration costs, financing expenses and income taxes. Additional depletion is provided if the net book value of capitalized cost exceeds such future net revenue.

Costs directly associated with the acquisition and evaluation of unproved properties are initially excluded from the computation of depletion. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the costs of the property or the amount of the impairment is added to all other capitalized costs which are depleted.

Sales of oil and gas properties are accounted for as adjustments to capitalized costs, with no gain or loss recognized, unless such adjustments would alter the rate of depletion and amortization by more than 20 percent.

The financial statements reflect only the company's proportionate interest in its exploration and production activities where such activities are conducted jointly with others.

Site restoration provision

Estimated future site restoration costs are provided for over the life of the proved reserves on a unit-of-production basis. Costs are estimated each year by management based on current regulations, costs, technology and industry standards. Actual site restoration expenditures are charged to the accumulated provision account as incurred.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit.

Stock-based compensation plans

The Company has a stock option plan, which is described in note 4(e). Compensation is not recognized for this plan when stock or stock options are issued to employees or directors. Any consideration paid by employees or directors on exercise of stock options is credited to capital stock. If stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock option cancelled is charged to retained earnings.

Income taxes

The Company follows the tax allocation method of accounting for corporate income taxes. Deferred income taxes are provided to the extent that current taxes have been reduced by claiming amounts, primarily exploration and development costs and capital cost allowance, in excess of the related depletion and depreciation recorded in the financial statements.

Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred.

Foreign currency translation

The financial statements of the UK subsidiary, accounted for as an integrated operation, have been translated into Canadian dollars using the temporal method as follows:

a) monetary items, at the exchange rate at the end of the year;

b) non-monetary items, at the approximate rate of exchange at the time the transaction occurred; and

c) revenues and expenses, at the average rate of exchange for the year, except for items relating to the balance sheet accounts which are translated at historical exchange rates.

Any resulting foreign exchange gains or losses have been reflected in the statement of income.

2. PROPERTY, PLANT AND EQUIPMENT

	1999	1998
Petroleum and natural gas properties		
Canada	$ 78,830,545	$ 61,149,007
United Kingdom	6,333,205	5,195,971
France	368,598	—
Office	589,592	430,181
	86,121,940	66,775,159
Accumulated depletion and depreciation	(24,381,143)	(18,465,693)
	$ 61,740,797	$ 48,309,466

Unproved properties in the amount of $12,087,000 (1998 – $7,500,000) have been excluded from petroleum and natural gas properties for purposes of calculating depletion.

3. LONG-TERM DEBT

	1999	1998
Revolving demand loan	$ 5,250,000	$ 5,216,000
Bankers' Acceptances	16,000,000	11,000,000
	$ 21,250,000	$ 16,216,000

During the year, the Company increased its credit facility from $18,000,000 to $30,000,000. The credit facility can be drawn in the form of a revolving demand loan, tender loans, letters of credit to a maximum of $1,000,000 and Bankers' Acceptances. The components of the credit facility bear interest as follows:

- the revolving demand loan bears interest at the prime lending rate (1998 – prime) per annum and is paid in arrears; and
- the Bankers' Acceptances bear interest at the prime acceptance fee rate plus 1/4% (1998 – prime plus 1/10%) per annum and is paid in advance.

The credit facility is reviewed annually by the bank, and, subject to their satisfactory review, and provided certain covenants with respect to the Company's borrowing base are maintained, no principal repayments will be required in the next twelve months. Collateral for this credit facility is provided by a general security agreement over the Company's Canadian oil and gas properties.

4. CAPITAL STOCK

(a) Authorized

The Company's authorized share capital is:

Unlimited number of common shares

Unlimited number of preferred shares which may be issued in one or more series. The directors are authorized to fix the number of shares in each series and determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

(b) Issued and Issuable

	1999		1998	
	Number of shares	Amount $	Number of shares	Amount $
Common shares				
Balance - beginning of year	**24,948,117**	**23,102,016**	23,405,354	21,156,263
Exercise of stock options	**739,250**	**1,597,613**	313,000	468,050
Issued and issuable pursuant to flow-through shares (note 4(c))	—	—	1,355,263	2,710,525
Tax benefits renounced	—	**(1,209,436)**	—	(1,022,230)
Share issuance costs, net of deferred income taxes (1999 – $4,374; 1998 – $78,388)	—	**(5,427)**	—	(97,369)
Normal course issuer bid (note 4(d))	**(329,900)**	**(302,036)**	(125,500)	(113,223)
Balance - end of year	**25,357,467**	**23,182,730**	24,948,117	23,102,016

(c) In December 1998, the Company issued 1,355,263 flow-through shares for $2,710,525. As at December 31, 1998, $870,525 of the $2,710,525 was held in trust for the Company by its transfer agent, pending the Company issuing the flow-through shares and completing the forms prescribed in the Income Tax (Canada) and the Taxation Act (Quebec). In 1999, the cash was transferred to the Company on the issuance of the flow-through shares and the completion of the prescribed forms.

(d) In accordance with the Normal Course Issuer Bid filed with The Toronto Stock Exchange, the Company is permitted to purchase and cancel up to 1.2 million of its common shares prior to May 24, 2000. During 1999 a total of 329,900 (1998 – 125,500) common shares were purchased and cancelled, at an average cost of $2.58 (1998 – $1.69) per share. The aggregate cost of common shares purchased and cancelled of $862,910 (1998 – $212,121) was recorded as a charge against share capital of $302,036 (1998 – $113,223) for the average carrying value of the common shares, with the balance of $560,874 (1998 – $98,898) charged against retained earnings.

(e) The Company's Stock Option Plan provides for a maximum of 4,385,000 common shares to be issued to its employees, directors or consultants. As of December 31, 1999, 1,936,750 common shares have been issued since inception and 2,488,250 common shares are reserved for issuance pursuant to the Stock Option Plan. The exercise price of each option grant shall not be less than the market price of the shares on the last trading day preceding the date of the grant. The maximum term provided for stock options under the plan is 10 years. Stock options currently outstanding have a maximum term of 4 years and are fully vested after the third year.

A summary of the status of the Company's Stock Option Plan is presented below.

	1999		1998	
	Shares	Weighted average exercise price $	Shares	Weighted average exercise price $
Outstanding - beginning of year	862,000	2.17	1,357,500	2.01
Granted	1,662,500	2.12	80,000	1.70
Exercised	(739,250)	2.16	(313,000)	1.50
Expired	(102,500)	2.25	(262,500)	2.02
Outstanding - end of year	1,682,750	2.12	862,000	2.17
Options exercisable at year end	511,250		822,000	

The following table summarizes information about the stock option's outstanding at December 31, 1999.

Options outstanding				Options exercisable		
Range of exercise prices $	Weighted average exercise price $	Number outstanding at 31-Dec-99	Weighted average remaining contractual life	Range of exercise prices $	Weighted average exercise price $	Number outstanding at 31-Dec-99
1.55 to 2.65	2.12	1,682,750	3.23 years	1.55 to 2.65	1.91	511,250

(f) Per share information is calculated on the basis of the weighted average of common shares outstanding during the year of 25,187,323 (1998 – 23,495,208).

5. DEFERRED INCOME TAXES

The provision for deferred income taxes reflect an effective tax rate which differs from combined federal and provincial statutory tax rates. The main differences are summarized as follows:

	1999	1998
Earnings before income taxes	$ 8,377,746	$ 1,772,275
Statutory income tax rate	44.62%	44.62%
Expected tax expense	3,738,150	790,789
Increase (decrease) in taxes resulting from:		
Crown royalties	1,484,105	393,680
Resource allowance	(1,827,991)	(528,670)
Alberta royalty tax credits	(324,158)	(130,572)
Depletion of non-tax base assets	271,194	123,445
Other	(108,130)	31,328
	$ 3,233,170	$ 680,000

The Company has non-capital losses, resource pools and tax deductions carryforward of approximately $37,887,464 (1998 – $33,664,000) in Canada and $4,900,000 (1998 – $5,195,000) in the U.K. available for use against future taxable income.

At December 31, 1999, the Company has $3,895,000 (1998 – $3,002,000) of petroleum and natural gas properties which have no income tax basis as a result of renouncements to flow-through share investors.

6. SEGMENTED INFORMATION

	Canada $	United Kingdom $	France $	Total $
December 31, 1999				
Revenue	28,144,281	1,317,024	—	29,461,305
Earnings	4,898,871	136,225	—	5,035,096
Identifiable assets	60,090,415	5,973,175	368,598	66,432,188
December 31, 1998				
Revenue	13,438,181	229,597	—	13,667,778
Earnings	1,065,134	(54,259)	—	1,010,875
Identifiable assets	47,012,142	5,367,165	—	52,379,307

7. COMMITMENTS

Pursuant to gas sales contracts, the Company is committed at December 31, 1999:

(a) to supply 2,500 gigajoules (G.J.) (2,370 mcf) of natural gas per day until October 31, 2005. The Company receives a blended price based on the average of five United States markets less a buyers fee of $0.025 per G.J. and NOVA transportation charges.

(b) to supply 3,000 G.J. (2,845 mcf) of natural gas per day until November 1, 2000. The Company receives a price of Cdn. $3.00/G.J. (3.16/mcf) less NOVA transportation costs including fuel and less $.005/G.J.

(c) to supply 3,000 G.J. (2,845 mcf) of natural gas per day until October 31, 2000. The Company receives a price of Cdn. $2.92/G.J. (3.08/mcf) less transportation costs and a $2,500 monthly marketing fee.

(d) to supply 3,000 G.J. (2,845 mcf) of natural gas per day until April 1, 2000. The Company receives a price of Cdn. $3.44/G.J. (3.63/mcf) less NOVA transportation costs including fuel and less $.005/G.J.

(e) to supply 1,500 G.J. (1,422 mcf) of natural gas per day until October 31, 2001. The Company receives a blended price of three markets less gathering and processing costs.

(f) to supply 1,500 G.J. (1,422 mcf) of natural gas per day until October 31, 2000. The Company receives the Sumas monthly index price less Westcoast transportation, fuel costs and gathering and processing.

The Company's annual rents in respect of leases and operating costs in the next four years are as follows:

	$
2000	397,636
2001	314,675
2002	314,675
2003	236,007

8. PROCEEDS ON PAYOUT OF GAS CONTRACT

Effective June 1998, the Company received proceeds of $1,224,100 (U.S. $823,721) pursuant to the termination of a gas contract by the purchaser.

9. FINANCIAL INSTRUMENTS

The Company's financial instruments recognized in the balance sheets consist of cash, accounts receivable and prepaids, accounts payable and accrued liabilities, and long-term debt. The fair values of the financial instruments other than long-term debt approximate their carrying amounts due to the short-term maturity of these instruments. The fair value of the long-term debt approximates its carrying value due to the cost of borrowing approximating the market rate for similar borrowings. At December 31, 1999 the company has included in income unrealized foreign exchange gains of $8,565.

10. SUBSEQUENT EVENT

Subsequent to year end the Company acquired certain petroleum and natural gas properties for total cash consideration of $13,500,000. This was funded by an increase in the line of credit to $38 million.

11. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

Five Year Statistical Summary

OPERATING ACTIVITIES	1999	1998	1997	1996	1995
Financial					
($000's except share and per share amounts)					
Gross oil and natural gas revenue ($)	**29,461**	12,444	13,483	12,074	7,226
Cash flow from operations ($)	**14,421**	5,523	6,106	6,504	2,685
Per share - basic ($)	**0.57**	0.24	0.27	0.32	$0.16
Per share - fully diluted ($)	**0.54**	0.24	0.27	0.31	$0.16
Earnings ($)	**5,035**	1,011	970	1,819	136
Per share - basic ($)	**0.20**	0.04	0.04	0.09	0.01
Per share - fully diluted ($)	**0.20**	0.04	0.04	0.09	0.01
Capital expenditures ($)	**20,556**	16,147	14,603	10,882	5,098
Total assets ($)	**66,432**	52,379	41,155	30,047	22,080
Working capital deficiency ($)	**3,012**	2,319	1,377	2,297	367
Long term debt ($)	**21,250**	16,216	8,005	2,085	6,248
Shareholders' equity ($)	**31,376**	26,821	23,963	20,694	12,281
Common Shares					
Outstanding at December 31	**25,357**	24,948	23,405	22,026	17,860
Weighted average for year	**25,187**	23,495	22,227	20,314	16,738
Operations					
Average daily production					
Gas production (mcf/d)	**18,440**	9,800	6,320	5,050	5,060
Oil production (bbls/d)	**832**	710	964	887	534
Ngl production (bbls/d)	**424**	310	224	148	86
Total (boe/d - 6:1)	**4,329**	2,653	2,241	1,877	1,463
Reserves (6:1 conversion ratio)					
Proven (mboe)	**12,193**	11,445	7,440	4,042	3,336
Probable (mboe)	**2,992**	3,293	3,382	1,827	1,520
Total (Mboe)	**15,185**	14,738	10,822	5,869	4,856

Corporate Information

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BOARD OF DIRECTORS

F.D. Barker	Vancouver (2)
R.G. Moffat	Calgary
R.E. Newman	Calgary (1) (3)
G.B. Rusk	Calgary (1) (3)
K.R. Stiles	Calgary (2) (3)
G.Y. Tooley	Montreal (1) (2)

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Reserves Committee

OFFICERS

R.G. Moffat	President and C.E.O.
J.R. Rossos	Vice-President, Exploration
P.D. Shenstone	Vice-President, Land
T.H. Hefter	Secretary-Treasurer & Controller

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Calgary, Alberta

LEGAL COUNSEL

Macleod Dixon
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Calgary, Alberta

STOCK EXCHANGE

The Toronto Stock Exchange
Trading Symbol: CEO

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company
Calgary, Alberta
Toronto, Ontario

ABBREVIATIONS

A.E.U.B.	Alberta Energy Utilities Board
A.R.T.C	Alberta Royalty Tax Credit
bbls	barrels
bcf	billion cubic feet
bopd	barrels of oil per day
boe	barrels of oil equivalent (6 mcf = 1 boe)
boe/d	barrels of oil equivalent per day
bpd	barrels per day
mcf	thousands of cubic feet
mcf/d	thousands of cubic feet per day
mmcf	millions of cubic feet
mmcf/d	millions of cubic feet per day
ngl	natural gas liquids
tcf	trillion cubic feet
WTI	West Texas Intermediate

ANNUAL REPORT

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